

MEMORANDUM

TO: Board of Selectmen
Advisory Committee

RE: Budget Message

DA: December 14, 2010

Cc: Mary Gallagher, Town Accountant
Department Heads and Staff

In accordance with Sections 4-2 (f) (h), 6-2, and 6-3 of the Town of Scituate Town Charter, I hereby submit the FY 2012 budget.

This year's budget document builds upon the new budget and goal-setting format implemented for FY 2011. While still a work in progress, this year's development was a little easier for department heads after last year's complete overhaul. Once again, I believe you will be impressed with the quantity and caliber of work that has been achieved by staff over the past year to develop a road map of defined goals and outcomes to keep us moving forward as a community. I continue to receive wide support for the changes, both large and small, that have helped us not only craft a better budget document, but in the process a much better financial foundation from which to manage.

The budget book is divided into three sections. The first section gives an overview of the Town's organization and current staff levels. It also contains information on the Town's budget process and includes detailed graphs and charts outlining its financial position.

The second section contains individual departmental budgets. These requests include goals and objectives identified by the department head to be worked toward during the coming fiscal year. These goals have been reviewed by the appointing authority and in cases where the department head serves a board or committee, proposed goals were encouraged to be reviewed and endorsed by them as well.

The departmental budgets are further broken down into various sections that give staff the opportunity to discuss major budget components, risks and challenges and departmental accomplishments during the past year. Along with the budgetary line items narrative detail is included as to what specific line items are used for and revenue, other than from taxation, is itemized.

Most important, the second section discusses the priorities identified by the department head for operations, staffing, programs, services and activities. Summary sheets for departmental requests are included with each budget. Specific line item detail for departmental budgets are available upon request and will be available during that department's budget review.

General Overview of Fiscal Year 2012 Budget

Before addressing FY 2012, it is important to review how the total town budget played out for FY 2011. The Town's forecast anticipating a reduction in local aid was realized as was a projection that local receipts would continue to remain flat or erode further. Revenues did fall short \$274,580 as a result of less anticipated new growth, less investment income, and less revenue from licenses, permits and fees and this shortfall needed to be funded at the November 8 fall town meeting. However, because of budgetary and expense changes, the Town's free cash position was strong enough to fund these reductions and, unlike many other communities, we did not have to go back and further cut budget line items that were already undergoing operating budget cuts.

Not unlike the prior five years, fixed costs continue to dominate our expense side of the ledger. For FY 12, health insurance is anticipated to increase 6.07% percent. Town and school officials have compiled a detailed FAQ about the provision of health insurance for public employees and this information is posted on the town's website. Two recently settled municipal contracts contain language to allow for more flexibility about the provision of insurance and we are working with the newly established employee Insurance Advisory Committee to help educate employees about our insurance plans, costs and options.

Three municipal contracts have now been expired since June of 2009. Two are in mediation and one in arbitration. The litigation between the Town and International Brotherhood of Police Officers (IBPO) relative to the Town's payment of the Quinn Bill is not anticipated to be addressed by the courts for a considerable amount of time, but the FY 12 budget must factor in legal costs association with this dispute. The FY 12 recommended budget provides for a 2% wage increase for the two contracts that are in place but not for non-unit staff.

Next, the Town's ownership of Pier 44 and the Building Options and Feasibility Study Committee to recommend options for its use, will factor into our financial projections sometime in FY 12. In March of 2011, the Town will be issuing a bond for millions of dollars in prior authorizations for a variety of projects, including Wampatuck School. Our bond rating will affect the interest that we pay on these funds for decades and as such adherence to recent operational and capital financial policies will be vital.

As always, because we are just now approaching the mid-point of the current fiscal year, projections about local aid are always a challenge. However, the revenue projections do anticipate a 4 % reduction in local aid for FY 2012 and this is keeping with the approach

employed by most South Shore communities. What the impact of no remaining federal stimulus funds will have on the Commonwealth's budget is unknown and how it trickles down to communities remains to be seen.

As for any budget prepared seven months in advance, the numbers are in constant flux and we are making assumptions during a snapshot in time. However, our Revenue and Expense Assumptions (included in this document) as well as the more formally reviewed Financial Forecasting Committee projections, provide a rational basis for revenue and expenses outlined in this budget.

Finally, it is again important to note that this budget document is not simply about dollars; it is about programs, services, activities and people. It illustrates in detail what our community can provide and the levels of services that will be provided. This in turn shapes and defines the overall character of our community and distinguishes us from our neighbors. The information contained herein needs to be shared not only with town officials but with as wide an audience as possible.

The FY 2012 recommended budget incorporates the following criteria:

Expenditures

No Free Cash has been used as an offset for the operating budget (\$600,000)*

No use of the Stabilization Fund has been used as an offset (\$2,215,911)

Assumes 5% increase in assessment for South Shore Regional School

No FY 12 appropriation has been recommended for three expired union contracts on the town side.

Revenues

Local Aid Receipts have been reduced 4%

The Town will use all of its levy capacity as allowed by Proposition 2 ½.

Overall, unrestricted departmental submissions resulted in requested budgets of \$27,022,677, a \$661,565.00 increase over FY 2011. \$73,589.00 of the budget is attributable to step and contractual increases.

In making determinations about recommended budgets, the Town Administrator considered the needs of the department and the cumulative effect of three years of reductions or level line items, the identified goals to work on in FY 12, and the overall performance of the department. As part of the overall management plan for the Town, there are certain goals that the Town Administrator directs the department to pursue and these initiatives need to be supported with resources allocated in the budget. Last, multi-year prior expenditure histories were reviewed to determine historical costs. Nevertheless, this resulted in a recommended budget that represents reductions to requests of **\$302,213.00**.

Significant Budget Items of Note

These items are discussed in detail in the budget section line item

Health Insurance is up \$315,183.00 for FY 12. While this is a reduction over the prior year, the annual increase far exceeds normal inflation.

Veterans Services

Expanded provision of benefits, extensions of international conflicts and trying economic conditions for veterans have resulted in a 250% increase in veterans' claims over FY 11 funding. This trend is not expected to decrease. The Town previously had a case load of three benefit eligible claimants. As of this writing, we have 22. This requires an increase in administrative services beyond the current capabilities of the Town and the FY 12 budget funds a part-time clerk (10 hours per week) for handling the myriad of paperwork and reporting requirements. More significantly is that the allowance for veterans benefit payments has increased from \$16,500.00 in FY 11 to \$50,000.00 for FY 12. While 75% of this is reimbursable from the state, it must be funded upfront. Even this may not be sufficient for FY 12, as we will likely have a significant shortfall for FY 11.

Pension

The Town received a slight reduction in its retirement assessment over FY 11 in the amount of \$14,983.00. This small surplus will be used to establish a fund to begin a reserve against health insurance costs of retirees. An unfunded liability that is required to be met under federal law, the "Other Post Employment Benefits" (OPEB) Fund will require town meeting approval.

Collective Bargaining

As previously noted, two union contracts have been settled and have been funded in the FY 12 proposed budget. The contract for professional staff provides for merit-based performance evaluations. This is in part driving the increase in "Contracted Labor and Other Services" but it is mostly as a result of continued bargaining with three other unions. Again, no appropriation has been made in this budget for those settlements and they will need to be absorbed in other ways.

Conservation Funds. For the second year, budgetary restrictions preclude an allowance for an appropriation into the Conservation Trust and Driftway Funds. However, \$1,500.00 has been allocated for monitoring of endangered species at New Inlet as required by state and federal regulations.

Public Building Maintenance. The Town continues to struggle with an adequate plan for maintaining and funding public facilities. Lack of a long-term vision for town buildings perpetuates the piecemeal approach to building needs. CPC funds have been requested to study Gates School and its potential for adaptive re-use. By many accounts, Gates seems to be the starting point for future decisions about town and school needs and how the buildings we have either support or hinder the respective mission of each. The Town's strong commitment to energy needs and efficiencies will also allow us to make some informed decisions once the ESCO project is completed, sometime in 2011. With this

information in hand, it is anticipated that FY 13 CIP recommendations will incorporate some planned approaches to getting a handle on our facilities needs.

Cable Access. The Town opened a brand new studio at the high school the beginning of this month. As noted here last year, cable funds have also been traditionally used to fund town and school information technology (IT) needs. The use of PEG Access funds by the town and school for technology must be allocated now for cable operations. This will impact school and town budgets in the future which have had an unhealthy reliance on non-General Fund revenue to finance required town and school technology functions.

Enterprise Fund Indirect Costs. Allocable costs for town services directly supporting Enterprise Funds are now reviewed and updated annually. All town-side utility costs are funded in the operating budget. This is not the case for the School Department, whose utilities (about \$100,000) are being subsidized by the Enterprise Funds. This is an ongoing concern and we are working with the School to address it over time.

Sewer Enterprise. Because of years of “benign neglect” the Town is now engaged in an aggressive infrastructure improvement program for sewer and water. The Board of Selectmen has committed to a 5% annual increase in water rates to address needs in that department and the DPW is doing a great job in getting projects ready and installed. For FY 12, sewer rates will need to increase in order to address deficiencies in this area.

Capital Improvement Plan (CIP). A new process commenced in November. The plan contains Town Administrator recommended projects based on a formalized rating system and an attendant finance structure to fund them. Working closely with the Town’s Financial Advisor, the plan uses a combination of debt service with pay-as-you go funds such as Free Cash, interest from Stabilization and retired debt surplus. In order for the CIP to be successful, in FY 13 General Fund revenue will be allocated for capital in the range of 2-3% and this will be included in the financial forecast. For FY 13 the CIP will also track Community Preservation projects as part of the Town’s overall capital and debt picture.

Summary

I am grateful for our department heads and support staff that keep us going despite several years of budget cuts and added work volume. I would also like to sincerely acknowledge the support of the Board of Selectmen as changes continue to be implemented in the management and administration of the Town.

This year we were again fortunate that town organizations and groups stepped up to support programs that help offset costs such as the D.A.R.E. program. The Community Preservation Fund continues to aid in the construction, rehabilitation and acquisition of projects that support the community. However as the budget grows ever tighter we need to look at how other towns provide the same services and if ours are less, comparable or greater. This is particularly true for Veterans Services, Animal Control, Public Safety, Recreation, Building Maintenance and capital investment. The benchmarking all departments provided last year help guide us in this area. If particular budgets have

opportunities for outside sources of funds this must be weighed against other town services, for example assessing or accounting, which have mandated functions that must be funded but have no budgetary offsets available to them when funds are tight. In addition, alternative sources of potential revenue, such as the meals tax, may need to be revisited. One thing is clear, with the continual annual increases in fixed costs, moving forward, instead of just treading water, is impossible. That is also the challenge for town officials as we balance the budget.

In closing, I again express my gratitude to the staff that assists in producing this budget document: Mary Sancinito, Nicole Harris, Jane Lepardo, Steve Jarzembowski, and most particularly, Mary Gallagher and Sheila Manning.

Respectfully Submitted,

Patricia A. Vinchesi
Town Administrator

** Free Cash has been allocated to fund FY 12 capital*